

**Hungary: Report on the Observance of Standards and Codes—
Data Module—Update**

This update to the Report on the Observance of Standards and Codes on Data Module for **Hungary** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed in **April 2004**. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of **Hungary** or the Executive Board of the IMF.

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**REPORT ON THE OBSERVANCE OF STANDARDS AND CODES
HUNGARY—DATA MODULE: AN UPDATE
APRIL 2004**

This note provides an update on data compilation and dissemination practices in Hungary. The original report on the Observance of Standards and Codes (ROSC) was issued in May 2001, and was updated in May 2002 and April 2003. For a description of institutional arrangements and practices, and IMF staff recommendations, this note should be read in conjunction with the original report and its two updates.¹ Further progress was made last year in addressing the remaining data quality issues identified in the original ROSC.

Hungary continues to observe the specifications of the Special Data Dissemination Standards for the coverage, periodicity, and timeliness of all data categories, including the detailed template on international reserves and foreign currency liquidity, and for the dissemination of advance release calendars. The metadata and summary methodologies underlying the economic statistics are regularly updated on the IMF's Dissemination Standards Bulletin Board.

A. National Accounts

- Methodological refinements and a change in the base year for the national accounts further reduced the magnitude of a discrepancy that exists between the GDP by production and the GDP by expenditure components. In line with ESA 95 (European System of Accounts, 1995) guidelines, the base year for the compilation of the national accounts for the period 2000–05 was changed from 1998 to 2000. There were also a number of methodological changes stemming in part from the harmonization of the Hungarian system of accounts with the European Union (EU) norms. Moreover, travel data were revised to establish consistency between the data compiled by the Hungarian Central Statistical Office (HCSO) and the balance of payments statistics reported by the central bank, Magyar Nemzeti Bank (MNB). The revisions largely affected trade in goods and services. The modification of travel data also affected household final consumption expenditure in the national accounts. As a result of these changes and modifications, the discrepancy between the GDP on the source side and the GDP on the use side was reduced by half to about 1¼ percent of GDP, based on 2001 current price data. The HCSO continues to publish the statistical discrepancy for the final annual data. The discrepancy is also estimated for the quarterly data, but the estimates are not published due to the volatility of quarterly inventory data.

¹ The original report *Hungary—Report on the Observance of Standards and Codes—Data Module* and its 2002 and 2003 updates are available on the IMF internet web site at: <http://www.imf.org/external/np/rosc/rosc.asp>.

- In line with Eurostat recommendations and with its technical support, the HCSO began estimating imputed owner-occupied rent in the national accounts based on a cost-accounting method. (The original ROSC had suggested updating the 1993 benchmarks that were used as the basis for estimation.) The cost-accounting estimates were incorporated in the national accounts beginning with the 2000 annual data. For that year, the imputed rent based on the new methodology was estimated at 6.1 percent of GDP, compared with 5.7 percent of GDP estimated on the basis of the 1993 benchmarks.
- Foreign trade and travel data in the national accounts and the balance of payments statistics have been fully harmonized. Since 2002, cooperation between the HCSO and the MNB has been formalized through memoranda of understanding signed each year by the heads of the two institutions specifying areas of further action.

B. Monetary Statistics

- Following modifications of accounting rules, the MNB made further progress in moving the assets of depository corporations to market valuation. From 2004, depository corporations are encouraged to use market valuation for securities in their trading portfolio. From 2005, this requirement is compulsory for those depository corporations that are listed on the stock exchange. Also, securities of all companies that are listed on the stock exchange and are held by depository corporations in their trading portfolio should be based on market valuation. Depository corporations are required to revalue their securities at least quarterly, and more frequently if possible.

C. Balance of Payments Statistics

- In line with a previously-announced timetable, the MNB will begin including data on reinvested earnings of FDI enterprises in the balance of payments statistics.² This will raise the current account deficit with an offsetting impact on the financial accounts. It will also raise the stock data on direct investment. Also, beginning with the 2004 quarterly data, income on financial assets will be recorded on an accrual basis. These modifications will complete the process of shifting Hungary's balance of payments statistics to accrual accounting, consistent with the principles of the IMF's *Balance of Payments Manual-Fifth Edition (BPM5)*.

² The balance of payments data will be revised from 1995. Reinvested earnings data for 1999–2002 are based on corporate tax records reported by annual surveys for that period, which are also used to estimate data for the 1995–98 period. The first estimates based on the FDI enterprise survey (reported annually in June) will be included in the 2003 final annual data to be released in September 2004. This annual survey will continue to serve as the basis for the estimation of reinvested earnings. For further details, see the MNB web site at: www.mnb.hu.

- Hungary's accession to the European Union on May 1, 2004 and its compliance with EU data procedures and requirements will involve two changes in the balance of payments statistics:
 - First, because of a threshold of €12,500 set for the reporting of financial transactions by credit institutions from May 2004, transactions below the threshold will be estimated and allocated among the balance of payments items according to a new survey conducted by the HCSO in cooperation with the MNB, (it is estimated that about two-third of all service transactions fall below the threshold). For this purpose, from June 2004, the HCSO will provide accrual-based quarterly data on services (excluding financial, insurance, transportation and government services) to the MNB for inclusion in the balance of payments statistics. This will also bring the data on service transactions closer to the *BPM5* guidelines. A new survey is scheduled to be launched in early 2005 for those service categories not covered by the current HCSO survey; in the meantime, transactions below the threshold in these categories will be estimated on the basis of settlement data.
 - Second, also from May 2004, Eurostat requires data on merchandise trade to be reported on the basis of Intrastat/Extrastat system within ten weeks after the end of the reference month. Currently, the MNB releases monthly accrual-based customs data within 30 working days after the reference month. Because of the longer reporting period, the MNB will cease reporting monthly data from July 2004 and will issue balance of payments data on an accrual basis only quarterly.³

D. Government Finance Statistics (GFS)

- There have been significant improvements in the quality of the GFS dataset since the original ROSC was issued. These improvements relate primarily to the institutional coverage of general government, consolidation of data and reconciliation of the central government deficit and financing. Important progress has also been made toward the adoption of the *Government Finance Statistics Manual 2001* as a part of Hungary's efforts to comply with ESA 95 guidelines. Moreover, great strides have been made in improving the transparency and accountability in government financial operations.⁴

³ April 2004 data available in June 2004 will be the last monthly publication. MNB's data release calendar and its data revision policy are explained in its press release of January 5, 2004. See www.mnb.hu.

⁴ These initiatives are discussed in *Hungary—Report on Observance of Standards and Codes—Fiscal Transparency Module—2004 Update*, posted on the IMF web site at: <http://www.imf.org/external/np/ros/rosc.asp>.

E. IMF Staff Commentary

Hungary has addressed most of the data quality issues identified in the original ROSC, broadly in conformity with IMF staff recommendations. Moreover, in preparation for EU accession, Hungary's data procedures and methodology have been increasingly harmonized with the requirements of EU institutions. Also, many of the consistency issues between the different datasets have been effectively addressed through closer cooperation between the national data collection and dissemination agencies.

From 2004, the balance of payments statistics will be consistent with the *BPM5* guidelines. The inclusion of reinvested earnings in the balance of payments data is particularly welcome as it provides a more accurate picture of external current account developments. In other areas, virtually all of the issues in the national accounts and monetary statistics have been addressed. A recent in-depth assessment of GFS by the IMF Statistics Department (STA) also reported significant improvements, while at the same time identifying areas where progress has been slow and where a greater effort is needed (especially concerning the compilations and dissemination of sub-annual fiscal statistics and the dissemination of metadata).⁵

⁵ The STA report will be posted on the IMF internet web site.